

SENATE BILL REPORT

SB 5986

As Reported By Senate Committee On:
Ways & Means, April 13, 2007

Title: An act relating to public facilities.

Brief Description: Concerning public facilities.

Sponsors: Senators Prentice, Delvin, Poulsen, Hobbs and Hatfield.

Brief History:

Committee Activity: Ways & Means: 2/13/07, 4/13/07 [DPS, DNP].

Brief Summary of Bill

- Funding is provided from state sales taxes, hotel-motel tax, rental car tax, and restaurant tax for the arts, maintenance operation of major public sports facilities, and a new regional center in King county.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5986 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Brandland, Hatfield, Hobbs, Keiser, Oemig, Rasmussen, Roach and Rockefeller.

Minority Report: Do not pass.

Signed by Senators Carrell, Fairley, Honeyford, Regala, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

Background: A public facility district is a unit of local government established by cities or counties to construct and operate sports, entertainment, convention facilities, or regional centers.

Sales & Use Tax: Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the

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property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary depending on the location.

Local Hotel-Motel Tax: A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. Cities and counties are authorized to levy a basic, or "state-shared," hotel-motel tax of up to 2 percent. These taxes are credited against the state sales tax on the furnishing of lodging. Other hotel-motel taxes are imposed in addition to ordinary state and local sales taxes and are added to the amount paid by the customer. The latter type are often referred to as "special" hotel-motel taxes.

Since 1975, a county basic hotel-motel tax must allow a credit for the amount of any tax levied by the cities within the county, thus precluding both the city and county tax from applying to the same lodging transaction. However, if a county has pledged the tax receipts to payment of principal and interest of revenue or general obligation bonds issued by a city or county prior to June 26, 1975, the county may continue levying the tax despite a city also levying the tax. This has allowed the cities of Bellevue and Yakima to levy the tax in addition to King and Yakima counties. For these cities, both the city tax and the county tax are credited against the state sales tax. This is known as the "double dip." Except for the city of Bellevue, cities in King County cannot impose a basic hotel-motel tax until January 1, 2021.

Beginning in 1987, the hotel-motel tax in King County not only applied to servicing the debt on the Kingdom, but a portion of the tax revenues above \$5.3 million per year was dedicated to arts and heritage programs in King County. Currently, 70 percent of the excess revenue is dedicated to the arts and heritage programs; however, 40 percent of the arts revenue is for the arts endowment fund, of which the principal cannot be touched. The remaining 30 percent of the revenue in excess of \$5.3 million is dedicated first to retiring the Kingdom's debt, then to acquisition of open space lands, youth sports activities, and tourism promotion. This is to continue until the Kingdom's debt is retired, then the full portion of the local hotel-motel tax in King County is dedicated to retiring the debt on Qwest Field. Beginning in 2012, the only known source of funding for the arts and heritage programs in King County is the earnings off the arts endowment.

Rental Car Tax: The rental of a passenger vehicle from a rental car company to customers, without drivers, for a period that does not exceed 30 consecutive days is subject to the state and local retail sales tax. In addition, the state imposes a 5.9 percent rental car tax. The receipts of the state rental car tax are deposited into the multimodal transportation account. A county is also authorized to impose an additional car rental tax of 1 percent. After the state's administrative costs are deducted, the local receipts are distributed to the appropriate counties and may only be used for the construction or operation of public sports stadiums, or for youth or amateur sports activities or facilities. There are currently four counties (Franklin, King, Pierce, and Spokane) levying this 1 percent tax.

King County imposes an additional 2 percent rental car tax to finance the construction of Safeco Field. Also, the Regional Transit Authority, which is comprised of the metropolitan areas of King, Pierce and Snohomish Counties, levies a tax of 0.8 percent on the rental of automobiles.

Safeco Field: In 1995, state and local financing was authorized for the construction of a new baseball stadium in King County. It is currently known as Safeco Field.

State Contribution: Retail Sales & Use Tax: An additional local retail sales and use tax at a rate of 0.017 percent was authorized. This local sales and use tax is credited against the state sales and use tax (6.5 percent) so the consumers do not experience a tax increase. The local option sales and use tax and the credit against the state sales and use tax expire when the bonds are retired, but no later than 20 years after the bonds are issued. The tax may not be imposed after January 1, 2016.

Lottery: Beginning in 1996, \$3 million of the lottery revenue was dedicated to baseball stadium bond retirement. Each year that amount increased by 4 percent. In addition, the State Lottery Commission was directed to conduct two to four games with sports themes per year.

License Plates: Special stadium license plates were authorized, with the revenue being dedicated to baseball stadium bond retirement. The special license plate fee is \$30.

Local Funding: Restaurant Tax: King County was authorized to impose an additional sales and use tax of 0.5 percent on food and beverage sales at restaurants, taverns, and bars. Food and beverage sales at grocery stores, mini-markets, and convenience stores were not included. The tax may be imposed when the bonds are retired or by December 1, 2016 (20 years after the bonds were issued).

Car Rental Tax: King County was authorized to impose an additional sales and use tax on car rentals at a rate not to exceed 2 percent.

Admissions tax: A 5 percent tax on admission charges was authorized for the purpose of baseball stadium bond retirement; however, excess revenues may be used to pay unanticipated capital costs excluding any cost overruns on initial construction. An additional 5 percent tax may be imposed for the sole purpose of baseball bond retirement.

The Mariners were required to contribute at least \$45 million to the construction cost. A leasehold excise tax exemption was granted for public or entertainment areas of the baseball stadium. In 1997, King County issued \$336 million of limited tax general obligation funds to provide the funding for Safeco Field. In 2002, King County issued new tax general obligation bonds at a lower interest rate that will save approximately \$6.1 million in debt service and will allow King County to pay off the Safeco Field bonds by 2012.

Qwest Field & Exhibition Center: In 1997, state and local financing was authorized for a new football stadium and exhibition center in King County. It is currently known as Qwest Stadium.

State Contribution: Retail Sales & Use Tax: King County was authorized to impose a sales and use tax at a rate of 0.016 percent. This tax is credited against the state sales and use tax. The revenues will be used to retire the bonds issued for the stadium and convention center construction. The tax and credit expire when the bonds are retired, but no later than 23 years after the tax is first collected. In 2004, this local sales and use tax generated \$6.2 million in revenue.

Tax Deferral: Retail sales tax was deferred on the construction of the facility. This includes labor and services, material and supplies, and rental of equipment. The sales tax must be repaid over a ten year period and the repayments will be deposited into the stadium and exhibition center account. State sales and use tax exemption was provided for vehicle parking fees charged at the stadium and exhibition center.

Lottery: Since 1998, \$6 million in lottery revenues is distributed to the stadium and exhibition center account each year. The amount of the distribution increases annually at 4 percent. The distributions expire when the bonds are retired, or 2020, whichever is earlier. The Lottery Commission was authorized to conduct new games. The operators of Qwest Field must promote the lottery with in-kind advertising, sponsorship, or prize promotions valued at \$1 million annually.

Leasehold excise tax exemptions were provided for public or entertainment areas in the facility. \$300 million in state issued general obligation bonds were authorized (exempt for state's statutory 7 percent debt limit).

Local funding: *Admissions & Vehicle Tax:* A 10 percent tax was authorized on admission charges to events in the stadium and exhibition center. A 10 percent tax on vehicle parking at the new facility was also authorized. Revenues from these taxes go first to retire the bonds, then into an account for future repairs and improvements.

Hotel-Motel Tax: King County's share of the basic 2 percent hotel-motel tax is extended to 2020. The revenues may be used for Kingdome repairs and debt until 2015, then for bond payments for the new stadium and exhibition center until 2020.

Car Rental Tax: Seventy-five percent of the county-imposed 1 percent car rental tax must be used for Kingdome repairs and debt.

The Seattle Seahawks had to contribute at least \$100 million to the construction. The total public share of construction costs of the stadium and exhibition center is limited to \$300 million.

Summary of Bill: The bill provides for the authority and the financing for the construction of a regional center in King county as well as provides funding for the arts, and maintenance and operation of other facilities.

More than one public facility district may be created in a county. The scope and authority of a public facility district is defined by the county. Public facility districts may contract with a prospective tenant for site acquisition, development, design, construction, lease, or management of the facility.

King County may extend the 0.017 percent sales tax credit that is currently being used to pay the bonds for Safeco Field at the time those bonds are paid off, which is expected to be in 2012. They may also extend the current 0.016 percent sales tax credit that is currently being used to pay the bonds on Qwest Field once those bonds are paid off, which is expected to be in 2021.

King County may extend the 0.5 percent King County food and beverage tax from the time the Safeco Field bonds are paid off until December 31, 2015. Currently this tax would expire when the Safeco Field bonds are paid off.

King County may extend the 2 percent rental car tax dedicated to Safeco Field from the time the Safeco Field bonds are paid off until December 31, 2015. The 1 percent rental car tax in King County that is currently being used to pay off the Kingdome repairs is extended beginning in 2016. Seventy-five percent of these revenues will go towards the new regional center.

Beginning January 1, 2021, the hotel/motel tax that is credited against the state portion of the sales tax, which is currently being used for the Qwest field bonds and Kingdome repairs, is extended until the bonds authorized in this act are paid off. Fifty percent of the revenues from the hotel/motel tax will go toward paying the bonds on the regional center, and 50 percent of the revenue will be used by the county to fund cultural activities and facilities in all parts of the county.

The arts endowment fund is converted to a reserve account. The principal of the account and earnings from investments may only be used for art museums, cultural museums, heritage museums, heritage and preservation programs, the arts, and the performing arts.

The site acquisition, development, and construction activities of the regional center is exempted from retail sales and use taxes, real estate excise tax, and the leasehold excise tax.

The tax revenues are first used to fund arts and cultural activities, from 2013 through 2020, and to fund modernization and improvements to major sports public facilities within the county. The excess revenues and bond proceeds are deposited in a segregated fund called the "Regional Center Account" within the county treasury. These revenues are used to construct a regional center. On or before the June 30 of each year, the treasurer must accumulate in the account enough funds for paying the principal and interest on the bonds for the upcoming year.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): The recommended substitute redirects some of the tax sources. The hotel/motel tax, car rental taxes, and the King County food and beverage tax goes towards the bonds used to build the events center; the 0.016 percent sales and use tax credit is dedicated to art, cultural, and heritage programs; and the 0.017 percent sale and use tax credit is dedicated to the arts, public facilities, and youth ball fields in the county. The bonds supported by the revenue sources in the bill are limited to \$300 million. The facility to be built must have at least a 15,000 seating capacity.

Appropriation: None.

Fiscal Note: New fiscal note requested on April 13, 2007.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony: PRO: This bill allows for sustainable funds for arts and heritage programs. Funding will be eliminated in the near future. Sports facilities are

important to the vibrancy and livability of an area. The sports teams are very important to a community's identity as we tend to personalize them. For King County, having the local authority and control is very important. We are committed to getting this accomplished in Seattle. Key Arena will not be a viable tier one market building in the near future. This building could also be a home for a NHL team, concerts, meetings and conventions. Right now local businesses have to hold events outside of the market, because there are no viable locations. We feel this asset is worth fighting for and preserving for the region. The Storm and the Sonics are a viable business in the region and a huge civic asset. This will help the whole region compete for business, conventions, and sports. The restaurant association supports this bill. In 1990, hotel/motel revenue began to be distributed to arts and heritage programs. Today there are over 250 organizations are benefiting from hotel/motel revenue. In 2012 all revenue to the arts ceases, except for interest earned from the endowment. We would go from a high of \$7 million to less than \$2 million, and in 2021 all arts funding goes away. We all need to do what ever we can to keep the Sonics in the state. The multipurpose facility could draw new events and new visitors to the area. Renton is excited about the potential world class facility being built in our city.

CON: We have two major concerns. First, this legislation will deny the voters the opportunity to vote on the proposal. We will fight the emergency clause on this bill with litigation. Second, this is a violation of Article VIII Section 7. The Sonics already have a state of the art basketball court. This is a waste of taxpayers money. The city of Seattle voted that they did not want to spend money on the Sonics. If this legislation passes we will be spending \$90 million per year on sports facilities. We believe that these revenue can be used for better things such as education and health care. This is a fig leaf for an out of control payroll. Public sentiment is against this.

Persons Testifying: PRO: Ron Sims, King County Executive; Clay Bennett, Greg Pierce, Linda Hull, Professional Basketball Club; Steve Leahy, Seattle Chamber of Commerce; Trent House, Washington Restaurant Association; Louise Miller, 4Culture; Mayor Kathy Keolker, City of Renton.

CON: John Scannell, Taxpayers on Strike; Chris Van Dyke, Citizens for More Important Things.